HollisWealth

Monthly Market Snapshot

April 2019

Monthly Overview

Global stock markets got their mojo back in Q1 after falling hard on their collective faces during 2018's final quarter. An aggressive rally to start the year left many of the world's equity markets within sniffing distance of where they were before the turmoil of Q4 was unleashed.

The S&P/TSX Composite pulled out a nominal gain in March, however, the 12.4% surge for the index during Q1 was its single best quarterly return overall since Q2 2009. It was also the best first quarter run-up for the index since 2000. The most meaningful gains for the benchmark during the quarter came from two sectors that account for a very small portion of its overall value. Healthcare, which represents 2.2% of the index, was higher by an astounding 49% in Q1. The story there was the weed stocks, where better known players such as Aurora Cannabis and Canopy Growth experienced respective gains of 70% and 55%. Technology is a 4.5% index weighting and it rocketed 25% higher during the quarter. More significantly, financial services and energy stocks, which account for half the value of the S&P/TSX Composite, jumped 9.4% and 14.4%, respectively, in Q1. Not one of the 11 major sectors posted a gain that was less than 8.2% during Q1.

From the nadir for stock prices last Christmas eve, the S&P/TSX Composite experienced an improvement of nearly 17% to March 31.

Markets south of the border basked in bullishness as well in Q1, as the S&P 500 index leapt by nearly 11% (returns in this paragraph are in CAD). For March, the benchmark was up by 3.4%. The index's top performing sectors for the first three months of the year were information technology, real estate and industrials. The biggest laggard during the period was health care, where gains were "only" 4.1%. Note that the Canadian dollar was fairly stable versus the greenback since the start of the year.

Solid returns for stocks have been coupled with reduced stress levels for investors. This is perhaps best (if not most perfectly) measured by the CBOE Volatility index, or VIX, which is a measure implied option volatility on S&P 500 option contracts. This index is often viewed as the market's fear gauge, and it was 47% lower by the end of the quarter.

International stocks, as measured by the MSCI EAFE index in Canadian dollar terms, were not near the front of the pack from a performance standpoint in Q1 but they still managed a 7% improvement. Returns there were somewhat muted by the fact that the loonie showed a decent amount of strength versus both the yen and the euro during the quarter. This strength brought returns down a bit after being translated into CAD.

Bonds were in rally mode as well in Q1. Yields on investment grade (IG) issues drifted lower, pushing prices higher overall. The Canadian IG bond index showed a 3.9% improvement in the first quarter. The more volatile high yield bond space recovered nicely after a tough Q4, to the tune of an 8% quarterly return. This was the best Q1 for this part of the market in more than two decades.

Turning to commodities, crude oil prices surged in Q1, with WTI ending 32% higher. That was the biggest jump for the commodity since Q2 2009, just after the bottoming of the great financial crisis. Recall that Q4 2018 was a nasty time for crude as prices slid by 38%, so the cost of a barrel still sits close to 20% lower than where it was on September 30. Natural gas prices were lower by 9.5% during the period, while precious metals were mixed (returns in USD for this paragraph only).

The Bank of Canada held its policy rate steady at 1.75% during its two meetings in the first quarter. The team at iA Economic is calling for one more rate hike, at most, this year. Canadian real GDP growth for the fourth quarter came in at 0.4%. The latest update was the print for January, which landed at 0.3%. That was higher than the consensus forecast. The nation's latest unemployment rate (for February) registered in at 5.8%, which is still near a 40-plus year low.

The U.S. Federal Reserve also kept rates steady in Q1 and went as far as to indicate that there would be no rate increases this year. Futures took heed and priced out any potential for a hike for the balance of 2019 and are in fact building in a decent probability of a rate cut before the end of the year.

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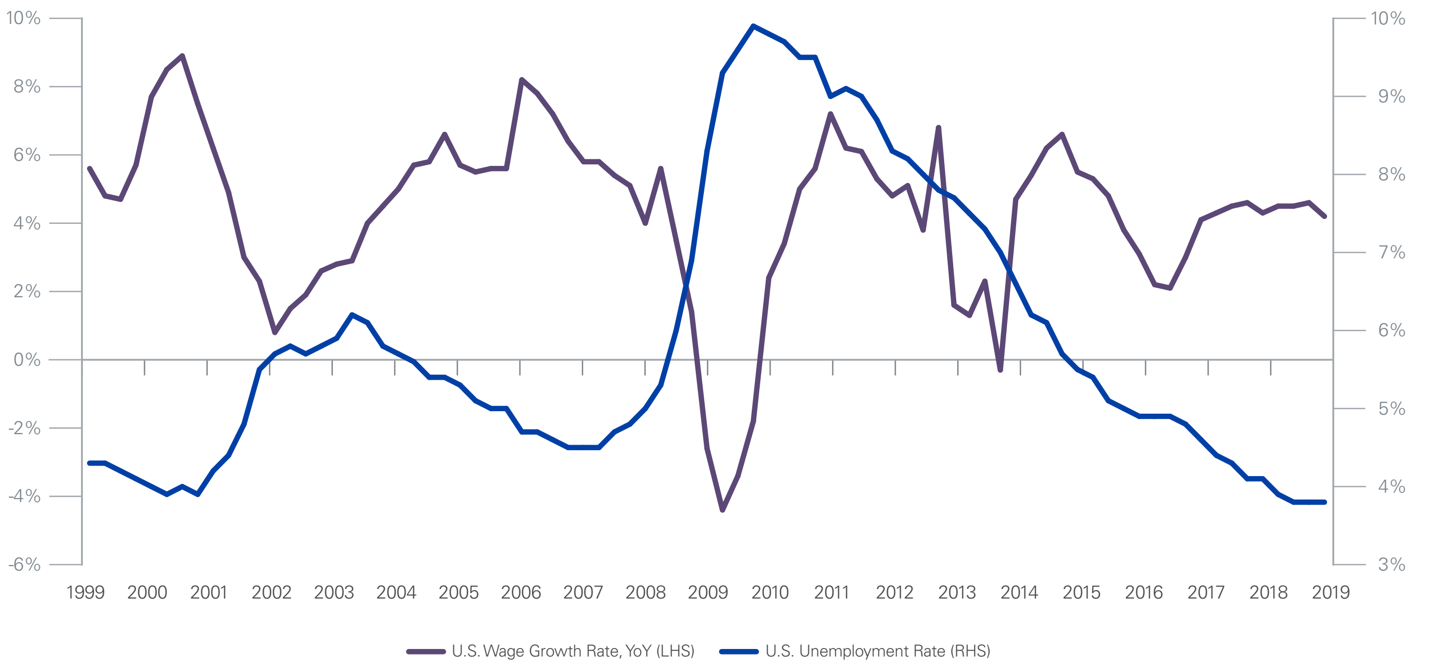
Monthly Market Statistics

Data to March 31, 2019, unless otherwise indicated

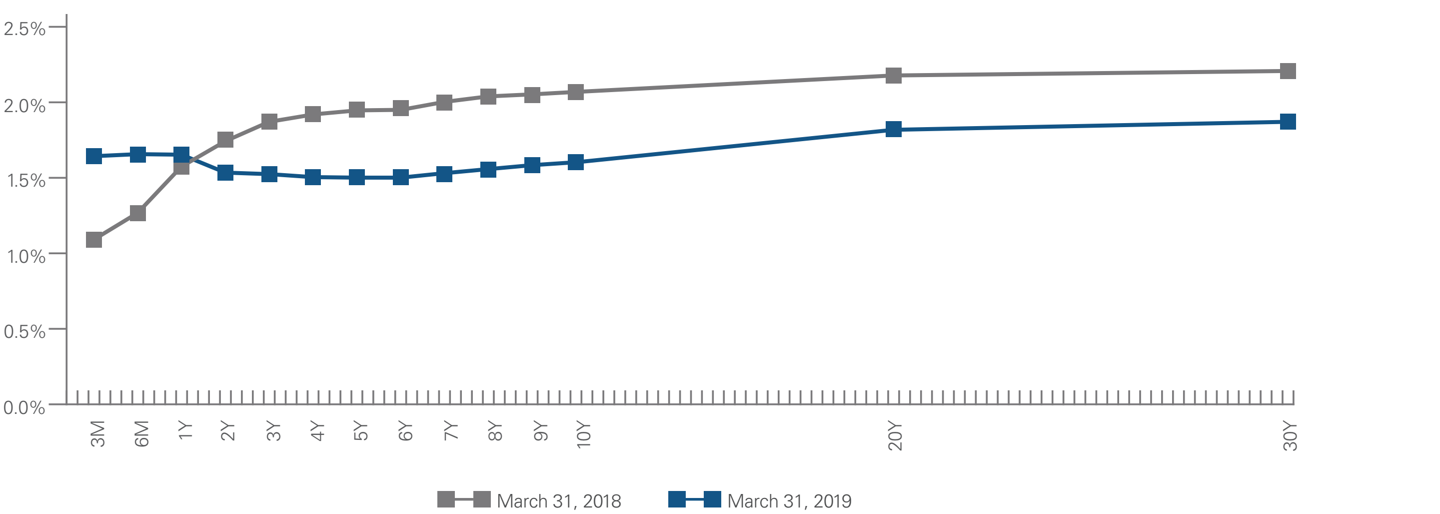
The U.S. unemployment rate is near historic lows, sitting at 3.8% in February. A tighter job market is usually associated with inflationary pressures on wages, and over the last 20 years when the unemployment rate neared 4%, wage growth has spiked. This has not been the case since the jobless rate first dipped to the 4% level in 2018. What might be driving lower wage growth this time around? One explanation could be low productivity growth. Real wage growth and productivity growth tend to work together, but general labour condition matter too. When labour markets are tight, an improvement in productivity is associated with a higher level of wage growth than when there is a productivity increase in environment with higher levels of unemployment. As labour conditions are arguably as tight as they have been in a very long time, an improvement in productivity growth could provide a bigger than usual boost to wages.

Chart of the Month: U.S. Unemployment Rate vs Wage Growth



Source: Bloomberg

Canadian Sovereign Yield Curve



Source: Bloomberg

Monthly Market Statistics

Data to March 31, 2019, unless otherwise indicated

Equity Index Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
S&P/TSX Composite	0.6	12.4	0.2	12.4	4.8	6.1	2.4	8.9
S&P/TSX Small Cap	-1.4	10.0	-6.5	10.0	-4.2	3.4	-2.4	13.1
S&P 500	3.4	10.9	0.5	10.9	11.2	12.3	12.9	10.7
MSCI EAFE	1.7	7.0	-1.8	7.0	-3.0	5.4	3.5	10.5
MSCI World	2.6	9.8	-0.3	9.8	5.7	9.6	8.8	10.1
MSCI World Small Cap	0.7	11.1	-4.0	11.1	0.6	9.8	8.5	12.4
MSCI Europe	1.8	7.7	-1.2	7.7	-3.2	4.6	2.1	13.7
MSCI EM	2.3	7.5	4.3	7.5	-6.2	9.2	5.2	13.0
MSCI AC Asia	2.3	6.9	-0.2	6.9	-3.8	8.5	7.0	10.9

Source: Bloomberg

Fixed Income Returns (% in CAD)

Index	1 Mo	3 Mo	6 Mo	YTD	1 Yr	3 Yr	5 Yr	3 Yr Std Dev
FTSE TMX Canada Universe Bond	2.4	3.9	5.7	3.9	5.3	2.7	3.8	3.7
Barclays Global Agg	1.3	2.2	3.4	2.2	-0.4	1.5	1.0	4.7
Barclays High Yield Very Liquid Index	1.0	8.1	2.9	8.1	6.5	7.9	3.9	4.8

Source: Bloomberg

Commodity Prices (Prices and Returns in USD)

Commodity	03/31/2019 Price ($)	MoM Change (%)	YoY Change (%)
WTI Crude Oil/BBL	60.14	5.1	-7.4
Natural Gas/mmBTU	2.66	-5.3	-2.6
Copper/pound	2.94	-0.5	-3.0
Silver/oz	15.11	-2.8	-7.1
Gold/oz	1293.00	-1.8	-2.3

Source: Bloomberg

Economic Data

Canada	
Real GDP - Q4 (q/q ann. % change)	0.4
Consumer Prices Feb (y/y % change)	1.5
Unemployment Rate, Feb '19	5.8
United States	
Real GDP - Q4 (q/q ann. % change)	2.2
Consumer Prices Feb (y/y % change)	1.5
Unemployment Rate, Feb '19	3.8

Source: Bloomberg, Stats Canada

One Month Sector Returns (% in CAD)

Sector	S&P/TSX Composite	S&P 500
Consumer Discretionary	-1.4	5.6
Consumer Staples	3.1	5.3
Energy	-0.9	3.6
Financials	-1.4	-1.2
Health Care	1.9	1.9
Industrials	3.3	0.3
Info Tech	5.0	6.4
Materials	2.2	2.5
Real Estate	3.4	6.1
Telecom Services	1.4	4.0
Utilites	4.3	4.3

Source: Bloomberg

Exchange Rates

Cross	2019-03-31	6 Mos Ago	1 Yr Ago
USD/CAD	1.33	1.29	1.29
EUR/CAD	1.50	1.50	1.58
GBP/CAD	1.74	1.68	1.81
CAD/JPY	83.04	88.09	82.62

Source: Bloomberg

Investment Recommendation Rating System

Recommended List:	The list presents a selection of funds that we believe are among the best of their peers and offer unique characteristics that can add value when used in a well-diversified investment portfolio tailored to a client's investment objectives.
Hold:	The fund remains on the Recommended List, but is not recommended for adding to or selling from client's portfolios.
Sell:	The fund is no longer on recommended list.
Under review:	The fund's participation on the Recommended List is under review.

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